

Message Text

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C O N F I D E N T I A L TEHRAN 2672

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E. O. 11652: GDS

TAGS: ENGR, IR

SUBJ: PETROLEUM: GOI/ CONSORTIUM NEGOTIATIONS

REF: TEHRAN 2145

1. SUMMARY: CONSORTIUM REPS REPORT CONSIDERABLE PROGRESS
IN TALKS WITH SHAH ON DETAILS OF AGREEMENT EMBODYING GENERAL
PRINCIPLES AGREED ON AT ST. MORITZ. SEVERAL SERIOUS PROBLEMS
REMAIN; BUT ATMOSPHERE GOOD AND BOTH SIDES ANXIOUS TO COMPLETE
AGREEMENT AS SOON AS POSSIBLE. IEND SUMMARY.

2. JAMIESON, EXXON, CALLED ME EVENING APRIL 20 TO GIVE ME REPORT
OF CONSORTIUM TEAM'S PROGRESS DURING PRESENT TALKS WITH SHAH TO
CLARIFY DETAILS OF FINAL AGREEMENT EMBODYING GENERAL PRINCIPLES
AGREED ON AT ST. MORITZ. HE SAID HE WAS ENCOURAGED BY ATMOSPHERE
OF TALKS AND SPECIFIC PROGRESS ACHIEVED. HE FELT THAT TECHNICAL
TEAMS COULD NOW GET ON WITH TASK OF FLESHING OUT FINAL DRAFT.
SEVERAL PROBLEM AREAS STILL REMAINED FOR FURTHER NEGOTIATION
BUT THESE DIFFERENCES HAD BEEN NARROWED AND CLARIFIED
CONSIDERABLY.
HE ADDED THAT HIS ASSOCIATES WOULD FILL IN ECON COUNSELOR
MORNING APRIL 21.

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3. CLARK, EXXON, AND BRAZELL, TEXACO, PROVIDED FOLLOWING DETAILS OF TALKS TO ECON COUNSELOR:

A. PROVISIONS OF 1954 AGREEMENT: SHAH APPROVED DETAILS OF MOST ITEMS OF COMMERCIAL AND FINANCIAL PROTECTION DESIRED BY CONSORTIUM TO BE CARRIED OVER FROM 1954 AGREEMENT.

B. ARBITRATION: ARBITRATION ARRANGEMENTS SIMILAR TO HOPCO AGREEMENT SATISFACTORY TO CONSORTIUM APPROVED BY SHAH.

C. FINANCING DEVELOPMENT: SHAH APPROVED CONSORTIUM OFFER TO FINANCE 40 PERCENT OF INVESTMENT REQUIRED FOR DEVELOPMENT BUT ASKED THAT CONSORTIUM FINANCE 100 PERCENT OF INVESTMENT THIS YEAR.

D. EQUIVALENCY TO PARTICIPATION: PROGRESS ACHIEVED ON THIS BUT SEVERAL POINTS REQUIRE FURTHER NEGOTIATION.

E. EXPORT CRUDE AVAILABILITY: NEW WRINKLE PRESENTED BY SHAH IN RESPONSE TO CONSORTIUM REQUEST THAT SHOULD CRUDE AVAILABLE FOR EXPORT BEGIN TO DROP AFTER 1980, 1.5 MILLION BBLs AVAILABLE TO NIOC FOR EXPORT AT THAT TIME BE REDUCED PARIPASSU WITH AMOUNT AVAILABLE TO CONSORTIUM. INSTEAD, SHAH PROPOSED THAT CONSORTIUM GUARANTEE SUPPLY OF AMOUNTS GOI COMMITS TO FOREIGN JOINT VENTURES AND THAT WHEN 1.5 MILLION EQUAL TO 50 PERCENT OF AVAILABLE EXPORT CRUDE, JOINT REDUCTIONS THEN TAKE PLACE. SINCE THIS ISSUE TOO INTIMATELY RELATED TO RELINQUISHMENT ISSUE AND SHAH'S PROPOSAL BEYOND COMPANY REPS INSTRUCTIONS, CONSORTIUM POSITION RESERVED FOR LATER NEGOTIATION.

F. RELINQUISHMENT: SHAH AND NIOC HAVE RESISTED REGATING ISSUE OF ACCELERATED RELINQUISHMENT OF PORTIONS CONSORTIUM AGREEMENT AREA TO CRUDE AVAILABILITY PROBLEM BUT TWO CLEARLY CONNECTED. CONSORTIUM HAS OFFERED RELINQUISH 25 PERCENT OF AGREEMENT AREA IMMEDIATELY, INSTEAD OF BY 1979, BUT NO AGREEMENT REACHED.

G. GAS: THIS TURNED OUT TO BE A BIGGER PROBLEM THAN EXPECTED. SHAH SOMEHOW GOT IDEA THAT CONSORTIUM CLAIMED TOTAL RIGHTS TO ASSOCIATED AS WELL AS DOME GAS' WHEREAS, IN FACT, CONSORTIUM

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HAD AGREED FROM BEGINNING THAT IRAN WOULD HAVE SCHEDULE OF INCREASING ALLOTMENTS OF GAS SIMILAR TO THOSE FOR OIL. THIS MISUNDERSTANDING WAS CLARIFIED AND, WHILE GAS ISSUE NOT TOTALLY SETTLED, PROBLEM NO LONGER AS ACUTE AS IT WAS. NIOC FREE TO PROCEED WITH PRESENT PLANS.

. SERVICE CONTRACT: NISHAH AGREED THAT SERVICE COMPANY WOULD BE FREE FROM NIOC INTERFERENCE IN TECHNICAL DECISION MAKING. HOWEVER, PUBLISHED AGREEMENT WILL HAVE TO PRESERVE IMAGE OF TOTAL NIOC CONTROL AND MANAGEMENT. COMPANY REPS FRANKLY WORRIED THAT PUBLIC VERSION MAY GIVE RISE TO PRESSURES FROM ARABS AND OTHERS TO REVISE PARTICIPATION AGREEMENT, WHILE REVEALING LIMITATIONS TO NIOC CONTROL TO ARABS MAY RESULT IN LEAKS AND COMMENTS EMBARRASSING TO SHAH AND NIOC. ALSO, LEGALITY AND ENFORCEABILITY OF RESTRICTIONS TO NICO'S AUTHORITY UNDER IRANIAN LAW, WHEN EMBODIED IN SECRET SIDE AGREEMENT, PRESENT DIFFICULTIES FOR BOTH SIDES.

4. NEXT STEP IS TO GET AGREED MINUTES OF TALKS CONTAINING VERY SPECIFIC LANGUAGE ON DETAILS (NOT RPT NOT NEW GENERAL UNDERSTANDING) SO THAT NIOC NEGOTIATING TEAM CAN NOT FREE- WHEEL. FALLAH AND CONSORTIUM REPS MEETING AFTERNOON APRIL 21 FOR THIS PURPOSE. ON MORNING APRIL 22, FALLAH IS TO BRIEF HIS TEAM (WE HOPE IN GREATER DETAIL THAN BEFORE) FOLLOWED BY RESUMPTION OF MEETINGS OF NEGOTIATING TEAMS AFTERNOON APRIL 22.

5. LEADERS OF BOTH NEGOTIATING TEAMS (FALLAH OF NIOC AND PENNEL OF BP) PRESENT AT AUDIENCES WITH SHAH. COMPANY REPS HPE THAT THIS FACT PLUS BETTER AND MORE DETAILED RECORD OF TALKS WILL SPEED WORK ON FINAL AGREEMENT.
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